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THE
RELATION OF FIRE INSURANCE
TO
INCENDIARISM

AN ADDRESS

DELIVERED BEFORE THE

International Association of Fire Engineers

SEPTEMBER 2, 1913 .

BY

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Mr. President and Gentlemen:



IN addressing the Association of Fire Engineers, the temptation to dwell upon the relation of the early Fire Insurance Companies to the evolution of organized Fire Departments is almost irresistible. The topic assigned to me is, however, so important that time and space must be devoted to it rather than to following out a line which intrinsically would be much more entertaining. You gentlemen are representative of the protective shield which is placed over cities and towns against the risk of fire; hence in dealing with my subject it is eminently proper that I should emphasize how, at the outset, the relations between the Fire Insurance business and organized Fire Departments were most intimate and sympathetic. The mere fact that the subsequent development of Fire Insurance necessarily called for the relinquishment of Fire Departments to municipal authorities should not alienate the close sympathy which originally existed. It will do none of us harm to remember that the purposes of the two

Parallel
Functions

systems run very parallel even now; the three great functions of Fire Departments are Inspection, Prevention, Extinguishment; the three great functions of Fire Insurance are Inspection, Prevention, Indemnity.

The early histories of Fire Insurance contain many quaint references to your predecessors, as for instance, in Relton's History of Fire Insurance, page 44, referring to Insurance Companies in the year 1690, we read: "They have a great many servants in livery with badges, who are watermen and other lusty persons dwelling in several parts of the City, who are always to be ready when any sudden fires happen, which they are very laborious in and dexterous at quenching, not sticking in cases of necessity to expose themselves to very great hazards in their attempts."

Our old friend, Daniel Defoe, author of Robinson Crusoe, in his Essay on Projects dated 1697, speaking of the origin of one Fire Insurance Company, says: "But it was soon followed by another, by way of Friendly Society; where everyone who subscribes pay their quota to build up any man's house who is a contributor, if it should happen to be burned. One benefit I cannot omit which they reap from these two Societies is that if any fire happens, whether in houses insured or not insured, they have each of them a set of lusty fellows, generally watermen, who, being immediately called up wherever they live by watchmen appointed, are, it must be confessed, very active and diligent in helping to put out the fire."

It may be remarked that the old historians have given a very apt description of you gentlemen and of those who serve under you, for you are certainly entitled to be considered lusty persons, very laborious in and dexterous at quenching, not sticking in cases of necessity to expose yourselves to very great hazards in your attempts.

Up to the great fire of London in 1666 there appears but little evidence of anything in the nature of organized Fire Departments or provision for the extinguishment of fires. After that calamity the first associated endeavor seems to have been along the line of *indemnity* for loss, not *protection* against fire; subsequently those who associated into companies to provide insurance took the further step of putting upon their payrolls bodies of men bearing their distinctive uniform to run with buckets and with the crude machines which soon began to appear, such efforts being primarily to protect the interests of those covered by Insurance, but by no means wholly so.

Insurance pre-
ceded Fire
Departments

One hundred years ago the City of London possessed a considerable number of such paid firemen in the service of the Fire Insurance Companies, who were the main reliance for the protection of that city against fire. In 1862 the combined force consisted of 127 men at twenty different stations, maintained by the Insurance Companies at an expense of \$125,000 per annum, and in 1866 they were taken over by the City of London.

It is of more than passing interest that organized Fire Departments clearly appear to have been an evolution of Fire Insurance; in this fact lies a sug-

gestion that they should continue to be allied forces as both their origin and purposes clearly indicate.

As both Fire Insurance and Fire Departments took form in the Old World from whence they were introduced to this country, these brief introductory remarks will serve as a basis for comparison of the relations in which they are found in the present day.

The crucial
problem

Doubtless the topic, "The Relation of Fire Insurance to Incendiarism" is intended to raise the underlying problem as to whether the effect of Fire Insurance in the period of its history of some 250 years has, broadly speaking, been beneficial or harmful in its influence upon the destruction or conservation of life and property; and this paper, to be of value, must fairly meet that proposition.

In considering this we must bear in mind that from the dawn of the history of cities conflagrations attended with fearful destruction of life and of property have ever been features, they being on a scale more frequent and larger relatively in the past than in modern times. The main causes of such conflagrations, apart from war, were the character of construction and the lack of protection. It cannot be alleged that Fire Insurance was responsible for these catastrophies, as Fire Insurance did not then exist.

Furthermore, there is abundant evidence in the histories of civilized peoples in times prior to the Seventeenth Century that fires destroying individual buildings, as distinguished from conflagrations, were of frequent occurrence, these being occasioned by the nature of construction, of occupation, from

motives of crime and revenge, and the like, which motives in their degree still produce like effects. It is evident that these disasters were not occasioned by Fire Insurance in the days before Fire Insurance existed. Such considerations lead us to the conclusion that frequent fires, destructive to life and property both as sweeping conflagrations and as individual catastrophies, have been features concurrent with the history of civilization, wholly independent of Fire Insurance. Fire Insurance did not produce fires, but the reverse is true.

The most momentous conflagration of modern history, the fire of London in 1666, virtually gave birth to Fire Insurance. Thus was inaugurated a new era which has brought about a readjustment of conditions both in the domestic and commercial world by making available the small contributions of the many to bear the heavy burdens of the unfortunate few, which is the principle underlying insurance.

London Fire,
1666, progen-
itor of Fire
Insurance

Coincidentally with this application of the principle of indemnity, as before remarked, arose the idea of organized protection which in its turn has produced a specialized form of education which tends to a knowledge of those conditions which cause fire, its spread and extinguishment, and to the features which yield the greatest degree of safety from such hazard. Before the inception of Fire Insurance, while there were glimmering ideas that something was wanted, there was no concentrated force to evolve such conditions in an intelligent way. Thus, for instance, we read how as early as the year 1302 one "Thomas Bat came

An early germ

before John le Blund, Mayor of London, and the Aldermen on the Friday next before the Feast of St. Hilary, 13 January, in the 30th year of the reign of King Edward, son of King Henry, and bound himself and all his rents, lands and tenements, to keep the City of London indemnified with peril of fire and other losses which might arise from his houses *covered with thatch*, in the Parish of St. Laurence, Candelwyk-strete, and he agreed that he would have the said houses covered with tiles about the Feast of Pentacost then next ensuing. And in case he should not do the same he granted that the Mayor, Sheriffs and Baliffs of London should cause the said houses to be roofed with tiles out of the issues of his rents aforesaid."

The citizens of London knew they wanted to be protected against the perils of the Thomas Bat thatched roofs, but if Thomas Bat happened to be financially insolvent the indemnity he offered would be of little avail and in fact his rents and tenements would very probably be swept away in the fire for which he might be responsible. It took the great fire of London by its flames to clarify the idea into the present form of Fire Insurance.

Fire Insurance
influences

For a long time the influences of Fire Insurance upon the conditions creating or preventing fire loss were less defined than at the present time. Fire Departments and Salvage Corps were organized by the Companies, thus there arose competent bodies of men whose sole duty it was to guard against and extinguish fire, so that this service gradually became specialized. A further educational feature was developed in the fact that rates

of premium were higher, or lower, according to the nature of construction and occupation, although these features were but very crudely marked until recent times. Still they served to indicate in a rough way the idea of what was safe and unsafe and showed to men how money could be saved.

Coming now to our present day, meaning the period covered by the present generation, the influence of Fire Insurance has made itself felt to an extent but little realized by the general public, which fact is to be developed a little in this paper.

My topic is narrowed to "The Relation of Fire Insurance to Incendiarism," but an intelligent understanding of this subject cannot be had unless we consider the motives which cause fires so as to see the specific influence which Fire Insurance may have upon such motives. There are three great factors which apparently enter into the occurrence of all fires connected with human agency and into the extent of loss resulting therefrom, which are here defined as:—

The immediate
topic

1. Physical Hazard.
2. Moral Hazard.
3. Temperamental Hazard.

By the term "Physical Hazard" is understood those causes which are inherent to inflammable property and its use, such as construction, chemical hazards, hazards of machinery, heating, lighting and all other causes which in their origin are not easily preventable or discerned.

Physical
Hazard

By "Moral Hazard" is understood the production or increase of loss from intentional causes,

Moral Hazard

among which must be included fires induced from motives of revenge, insanity, to conceal crime or to secure unlawful gain.

Temperament-
al Hazard

By "Temperamental Hazard" is meant that state of mind which condones carelessness as to the causes which produce fire, which is indifferent as to the effects which follow or as to their remedy. Every fire is not (as has often been claimed) "a crime," so we may define that between those fires which notwithstanding reasonable care can scarcely be avoided and those which are intentionally caused come in that immense volume of fires, not purposely caused, but which could be prevented. It is these fires which are classified as coming under the "Temperamental Hazard."

Heart of the
topic

Still further reaching into the heart of the topic assigned, we see that "The Relation of Fire Insurance to Incendiarism" is mainly found in connection with the second of the causes above referred to, namely, "Moral Hazard"—that is, the influence which Fire Insurance exercises upon the production of fires for unlawful gain. It therefore becomes again important to analyze more closely those fires which are intentionally caused since the scope of incendiarism is confined to such losses. If we reflect we shall satisfy ourselves that all intentionally produced fires spring from one of four causes, namely:

Motives

1. Motives of revenge or spite.
2. Insanity, weak mindedness, drunkenness or mania for excitement.
3. To cover up evidence of crime such as theft or murder.
4. For unlawful gain to procure insurance money.

The one cause out of the four which has to do with our topic is put last. We have seen that incendiarism is localized to what in the Insurance Business is called "Moral Hazard." Pursuing our investigation further, we have proved that out of the four causes of incendiarism there is only one which has any possible relation to Fire Insurance. This is most essential to bear in mind as almost all popular discussions assume as a matter of course that Insurance is the underlying cause of everything classified as incendiarism, a very unfair assumption.

Could we determine, out of all fires caused, how many are properly chargeable to "Physical Hazard," how many to the recklessness and indifference of the public as a whole, and, finally, how many are intentionally produced, we should soon reach conclusions of value; but we are at once confronted with the fact that not only are there no positive figures in evidence in relation to any one of these three causes, but also that there never can be such figures. Most things can be statistically demonstrated, such as disease, theft, murder, the birth and death rate, and many other things vital to the body politic, but no effort will ever be successful to demonstrate accurately the causes of fire for the reason that in the majority of instances, whether produced accidentally or intentionally, fire destroys the history of its own origin, and it must ever be so.

No exact date
possible

The public has been impressed through the press and in other ways with high estimates of the proportion of Incendiary fires. While we cannot

Can disprove
wild estimates

prove any estimate, it is easy to *disprove* the extravagant estimates which have been made. No one can be connected for a long term of years, as you gentlemen, with the business of extinguishing fires, or with that of Fire Insurance, without accumulating enough knowledge to know that estimates thrown out broadcast over the land in sensational publications of from 25% to 50% of incendiary fires are ridiculous. Let us grope for a little light from what material is actually available.

From State
Records

Information is drawn from such States as publish details of the total number of fires, the number reported as "Cause Unknown" and as "Incendiary," which last we must bear in mind divides into four motives, only one of which has any reference to Insurance. Statistics for consecutive years were not available to the speaker; therefore, what has been used is the following fragmentary material:

| STATE | Total Number of Fires. | Suspicious or Incendiary. | | Unknown | |
|----------------------------|------------------------------|---------------------------------|--------------------|---------|--------------------|
| | | No. | Ratio of Total. | No. | Ratio of Total. |
| Massachusetts, 1908-12.... | 32,535 | 726 | 2.23 | 3,332 | 10.24 |
| West Virginia, 1911-12... | 1,521 | 117 | 7.70 | 451 | 29.60 |
| Michigan, 1911 | 2,831 | 47 | 1.67 | 519 | 18.30 |
| Ohio, 1908-11 | 19,520 | 477 | 2.45 | 1,811 | 9.28 |
| Kentucky, 1907-08 | 3,597 | 211 | 5.87 | 806 | 22.20 |
| Wisconsin, 1910-11 | 4,660 | 86 | 1.85 | 751 | 16.12 |
| Louisiana, 1912 | 2,007 | 98 | 4.87 | 302 | 15.00 |
| Illinois, 1912 | 9,092 | 448 | 4.92 | 2,304 | 25.30 |
| Nebraska, 1912 | 1,234 | 73 | 5.92 | 191 | 15.50 |
| Totals..... | 76,997 | 2,283 | 2.97 | 10,467 | 13.59 |

(N. B.—All fires tabulated as "suspicious" are classed with "Incendiary.")

A cursory examination of the above figures probably indicates the relative efficiency of those States in their investigations, as in the State of Ohio the "causes unknown" amount to 9.28% only, while other States range nearly up to 30%.

The figures for the State of New York are not available, but those for the last three years in Greater New York are added. It must be borne in mind here, as with the State figures, that losses reported as "suspicious" are put in the incendiary class, which undoubtedly loads that class with a number of losses which do not belong there.

Greater New York Fires.

| Year. | Total Number. | Suspicious or Incendiary. | Ratio of Total. | Unknown. | Ratio of Total. |
|-----------|---------------|---------------------------|-----------------|----------|-----------------|
| 1910 | 14,405 | 533 | 3.70 | 3,586 | 24.90 |
| 1911 | 13,868 | 608 | 4.38 | 4,633 | 33.40 |
| 1912 | 15,633 | 805 | 5.14 | 3,801 | 24.31 |
| Totals... | 43,906 | 1,946 | 4.42 | 12,020 | 27.37 |

Combining figures of the several States with those of Greater New York, we have the following interesting exhibit:

Total Fires, 120,903. Suspicious or Incendiary, 4,229. Ratio, 3.49. Causes unknown, 22,487. Ratio of whole, 18.59.

From the foregoing figures we are justified in assuming as a fair estimate based upon all available data, that the number of suspicious or known incendiary fires of all kinds does not exceed a percentage of 3.50 of the total number of fires.

But it will be rightly argued that hidden in the mass of fires "Cause Unknown" lies a further

heavy percentage of incendiary fires. This is surely so. It may even be allowed for the sake of argument that *one-half* of all the "Cause Unknown" fires are incendiary and should therefore be added to those reported as incendiary. As out of the 120,903 fires with which we are dealing, 18.59% are reported as "Cause Unknown," we add one-half or 9.29% to the ratio of incendiary fires of 3.50, so making 12.79, or say 13%, estimated as the total proportion of all fires in the country due to incendiarism. This must be deemed a very liberal estimate. Taking the best known estimated figures of the total United States and Canada fires, those compiled by the *Journal of Commerce*, we find for 1912 they amounted to \$225,321,000. Assuming 13% of this amount to be due to incendiarism as a whole, the figure reached is \$29,291,430.

But this is the figure of incendiarism due to all four motives of Revenge, Insanity, Crime and Insurance. Eliminating the three which have no bearing upon Insurance, and keeping to our topic, "The Relation of Fire Insurance to Incendiarism," we now reach the question: What proportion of the 13% of the total fire loss owes its origin to Fire Insurance? The available statistics are meagre, but three States give the *motives* of incendiary losses so far as known, viz.: Massachusetts, West Virginia, Ohio. The figures for 1,320 *incendiary* fires recorded in these States are: For Revenge, 351; Crime or Drink, 36; Insanity, 167; for Insurance, 258; Unknown, 508; this item of "Unknown" being about 38.5% of all incendiary fires.

From these figures it would appear that 19.5% of the known incendiary fires had insurance imputed as the motive by the State officials; if to this we add one-half of the "motive unknown" incendiary fires we reach 19% more, or 38.5% in all as a proper estimate of the *incendiary* fires which have Fire Insurance as the exciting cause. As we have before demonstrated the volume of all the fires caused by incendiarism to be approximately \$29,291,430, we now take 38.5% of that amount, showing an amount of \$11,277,200 as the probable fire loss in the United States and Canada, which can fairly be imputed to Fire Insurance in its relation to incendiarism, or a ratio of 5.00% of the total estimates for all losses for the year 1912.

Incendiarism
due to Fire
Insurance as
a cause

This figure of 5.00% compares with widely promulgated estimates of from 25 to 50% of our total fire loss based upon nothing but guess work. The figure is doubtless not far from the truth, and justifies what is said before, that while we cannot prove exactly any estimate, it is easy to disprove those which have hitherto been extant. Facts are very disturbing; they upset theories, guesses and sensations which are dearly prized by those who beget them. Doubtless the reason why the popular conception is so much higher than the reality is due to the fact that fires suspected to be due to incendiarism attract notice and are talked about, while the fires having only careless, but not criminal origin pass without comment.

Estimates
disproved

Furthermore, it is a fact that the crime of arson is largely localized to a few cities and to a few sections in such cities, because of exceptional

Arson localized
to a few
cities

Incendiarism
sporadic not
epidemic

opportunities due to the presence of a certain type of broker and public adjuster not found generally elsewhere, combined with a seething mass of mixed population gathered from all nationalities. Incendiarism cannot get a foothold on a large scale apart from such conditions, but the public impression is as though such local conditions were general. It is as though there exist a few spots where small-pox is epidemic, and we should estimate the whole population of the United States to be afflicted with the scourge in the same proportion, which would be foolish. Incendiarism is apt to be sporadic and occasional rather than universally epidemic, although popular opinion has been impressed to the contrary. Certain limited areas in New York and Chicago unquestionably are more subject to the crime than any other sections in the United States. This contention is borne out by the statistics of convictions obtained by the Fire Marshal's department of Greater New York from January, 1910, to August, 1913, which show 47% of the total convictions obtained as being suspicious or for insurance gain and 53% as for all the other causes enumerated. This compares with the average of incendiarism for Insurance for the rest of the country as given above of 38.5% of all incendiary fires.

Incendiary
loss not large

As to the great volume of loss, we must not forget that large City conflagrations like those of Chicago, Boston, Baltimore and San Francisco are not the products of incendiarism. Likewise, in the case of large individual losses where high values are concerned, such as large factories, stor-

age warehouses, stocks of merchandise, expensive dwellings, churches, schools, public buildings, the element of incendiarism has rarely anything to do with them. Thus if every incendiary in the country were locked up in prison it would not seriously reduce the great bulk of the property loss by fire.

Our analysis must be carried still further to the subject of "Over-insurance." The dread of this evil is evident with legislator, magistrate and newspaper, so that the popular mind is profoundly impressed with the idea that over-insurance is an evil of colossal proportion underlying a large proportion of the great fire waste. Careful investigation does not support this view. To begin with, the great bulk of policyholders in the community are honest people who do not pay premium upon more than a fair valuation of their property. Thus the vast proportion of property in the country is not over-insured.

Over-
Insurance

Over-insurance is usually in evidence from one of three causes:

Over-
Insurance
analyzed

1. Honest over-valuation of property from failure to understand the effect of age, depreciation, or wear and tear.

2. Fluctuation in quantities of merchandise, passing in and out of stores, or warehouses, or from changes in market values.

3. Intentional over-valuation for fraudulent ends.

Upon this subject we have access to some figures which are illuminating. In 1912 statistics of 55,391 losses incurred by 44 insurance companies in the

Over-
Insurance
Statistics

Western field were analyzed, showing only 783 cases of over-insurance, or about one and one-half per cent. of the whole. Of these cases 265 were shown to be from causes perfectly honest, leaving 518 of doubtful origin. The fact would seem to be that, as suspicious losses generally come to the attention of public officials, an impression is made as though a general epidemic of over-insurance existed, when in sober reality in over 95% of all cases of loss the amount of insurance is well within the value of the property.

In New York City, where the fluctuations in merchandise on storage or in transit are more frequent than elsewhere, the percentage of these cases is much heavier. In the case of 2,610 losses handled by the New York Board of Fire Underwriters in 1912 there appeared 416 cases of over-insurance, or nearly 16%, but 83 of these cases were of building insurance with no question of dishonest motive involved, while of the great bulk of the 333 on other property there was absolutely no taint of evil intent. The percentage of over-insurance to the total of policies in force is undoubtedly small, notwithstanding impressions to the contrary. It cannot be controverted that no responsible insurance company will knowingly consent to insure property for more than its value except where fluctuations may occur on merchandise in and out of warehouse.

The topic assigned is doubtless intended to draw out light as to the causes of the heavy fire waste of the country and perhaps to suggest remedies to some extent. What has been said is an

endeavor to clear the atmosphere as to what is *not* the cause of the fire waste, some popular opinion to the contrary notwithstanding; it is now for us to gain some idea of what are the chief producing causes and to examine the question of remedies.

Consideration has been given to the normal causes of fire loss under the head of "Physical Hazard," which are found in every country, also to Incendiary fires analyzed according to their motives. Something was said as to "Temperamental Hazard," which was defined to mean that carelessness of mind as to causes which produce fires, as to the effects which follow, and as to remedies. Under this title are to be found the greatest volume of loss and the material upon which effort should be concentrated to minimize the fire waste. In this class are found all the preventable fires not intentionally produced, as well as the augmentation of the volume of loss after fires have occurred through fraudulent claims and the like.

Fire Waste and
Temperament-
al Hazard

The characteristics of "Temperamental Hazard" may be defined as follows:

a. Habitual recklessness in the use of machinery, of volatile and combustible substances, of light and heat and in all other conditions which are favorable to the outbreak of fires through lack of care in the cleanliness of premises, unsafe flues and similar things. This recklessness is a national characteristic which shows itself not only in connection with fires but also in every other phase of life, as witnessed by the appalling loss of life on railroads, in mines, on engineering works, manufacturing, etc. Such a condition of mind in contact

Temperament-
al Hazard
defined

Recklessness

with the element of fire despises protective measures and looks upon fire when it has occurred as a mere incident of life calling for neither excuse nor condemnation. It will take a long process of education, beginning from infancy up, to cure the effects of this national disposition and to produce a fitting respect for the value of both life and property. The full-grown generation in this respect seems to be hopeless. The writer saw but a few days ago at a railway station a father who desired to amuse his little son of say two or three years of age. He took a box of matches from his pocket, struck one of them and waved it back and forth in front of the eyes of the child. It was a thoughtless act typical of ten thousand others, and the interest a box of matches will henceforth have upon the mind of that child is evident. The older and more settled communities in the Old World have an inborn instinct of care concerning all that has to do with the cause of fire or with safety to life and limb which is lacking in this country.

Timber
Construction

b. Nature of construction, the abundance of wood making the quick development of the country largely dependent upon the cheapest material especially dangerous in connection with shingled roofs. This feature will gradually work itself out as lumber becomes relatively more expensive and under the influence of the Building Codes of good type which are now becoming generally adopted. Reform along these lines must necessarily be a slow process of years, but it is working. Meanwhile people prefer the choice of paying more fire pre-

mium and of remaining unhampered as to their use of cheap building material.

c. That temperament which is prepared to sympathize with and support the individual who is visited by fire or invites a visitation. Undoubtedly this is the most serious aspect of all, and can only be intelligently cured when the public mind, as shown in législation, newspapers and administration of the Courts, really grasps the fact that sympathy with the unscrupulous claimant is a direct damage to the community at large. The Insurance business is a public necessity; it is therefore a great misfortune that sentiment works not to the protection of the honest man, but aids in the procurement of fraudulent gain.

Perverted
Sentiment

As bearing upon this feature, the scope of this paper could be immensely enlarged by reference to statutes such as the Valued Policy Laws existing in some States, which never help an honest claimant, the benefits go to the unscrupulous; or to the bill recently passed in Texas and a similar bill in Arizona, which tend to sweep away all defence against incendiarism which companies can properly advance. This paper could be filled with extracts from the reports of Fire Marshals and other State officials such as the following from the 1911 report of the Fire Marshal of Ohio:

Valued Policy
Laws

"The valued policy law of this State in our opinion is a vicious provision of law, as it compels the insurance companies to pay the full amount of an insurance policy on buildings in case of fire, without the slightest regard to the real value of the property burned, thereby creating a moral hazard and endangering adjoining property.

Ohio Fire
Marshal

"Public sentiment always plays an important part in the trial of criminal cases. It has its influence to an unusual extent in the trial of arson where the motive is to defraud the insurance company. People in general do not understand nor appreciate the serious nature of the crime and that it is the most serious of all crimes committed against property, burglary and larceny not excepted. They also forget that the loss from this source is an indirect tax on the people and is paid for in insurance premiums. We are many times reminded that there is too much mushy sentiment, that too many people effervesce with sympathy toward a man charged with crime, and boil with venom against the man who seeks to chastise the wrong-doer. These emotionalists are sometimes reinforced by a body of men who themselves wish to do wrong, and who are, therefore, not very sentimental, but on the contrary quite practical. These classes when appealed to against the soulless incorporation—the insurance company, forgetting for the moment that the community at large, and they themselves, must contribute in insurance premiums their pro rata share to reimburse the company for the amount of the loss, even though it be crooked, govern their actions not according to the facts, but rather according to their prejudice.

"It also frequently happens that when a firebug has set a fire endangering valuable property and human life, and he is brought before a magistrate his bond is fixed so exceedingly low that he flees from the State to avoid prosecution and probable conviction."

or from the Fire Marshal of Louisiana, who writes as follows:

Louisiana Fire
Marshal

"Great difficulty is encountered in bringing cases of incendiary fires before Grand Juries. The vari-

ous Grand Juries indict with great reluctance. In cases where the motive is to defraud they seldom indict, unless the evidence is very positive, such as the seeing of the commission of the crime, which evidence is rarely secured in such case. The difficulty in securing convictions are well nigh insurmountable. The evidence is circumstantial and the matter of reasonable doubt is emphasized upon the jury. Our experience has been in some cases where the committing magistrate dismissed the case because the negative answer was given to the question: 'Did you see him light the match?' The general prejudice against fire insurance companies and the fact that arson is not looked upon as a crime against the State. The fact that often persons of high standing are guilty of arson and conviction in such cases is near impossible. The general lack of co-operation among District Attorneys, court officials and even Fire Insurance Companies. The penalties for arson are too severe to ensure convictions. These penalties range from seven years to death."

It is further the remark of a State Fire Marshal that evidence which would convict in a case of murder is of no avail in the case of incendiarism where fire insurance companies are concerned.

This subtle temperament of the public is one of the most deadly influences producing Fire loss, as the criminals are assured beforehand of the most indulgent treatment; and until there is a revulsion in this respect bringing about a wholesome and invigorating sentiment there can be no great reduction in the present rate of burning from criminal causes. When men come to soberly consider the question they will find that the Temperamental Hazard goes far deeper and is of more profound

Wrong Sentiment a Great Cause of Fire Waste

importance than the other two questions of Physical and Moral Hazard put together.

Reverting to our topic, if Fire Insurance is responsible for motives which largely increase the destruction of property and jeopardize life, it is for the profession to frankly acknowledge it and to reform their methods. If on the other hand the public have, through misunderstanding, held a wrong point of view as to these things, it is for them to lay aside unjust prejudice and to sympathetically support what is for the best interests of the community at large, in which they will find they have no stauncher supporters than the Fire Insurance Companies. The insurance companies have not the power to correct most of the evils; they can and do point them out as well as their remedies; but they have no power to put things into effect which depend on the support of a right public sentiment, when that support is withheld from them.

Remedies not
feasible

Coming to the question of Remedies, many suggestions have been advanced in all sincerity by those whose line of occupation has not been that of insurance, and it has been a matter of puzzlement to such oftentimes why the things which have been suggested as remedies could not receive the support of the Insurance Companies. From this it has been argued that there is an indifference or hostility on the part of the companies. This is an unjust inference. The truth is most of the remedies suggested would prove no remedies at all. Take, for instance, the one most commonly made and in which there is supposed to be the greatest safeguard, that is, inspection prior to the issuance of a

Pre-Inspection

policy. While it is obvious that this would enormously increase the cost of the business, it also becomes evident that to those seeking unlawful gain it would be a help rather than a hindrance. Suppose a man seeks to profit by fire; he lays his plans for it; he has the premises properly inspected so that the certificate of the company's inspector is upon record that all is in good order; the values are there. Subsequently when fire occurs the report of the inspector could be used in evidence to show that the insurable values were actually there, while, as a matter of fact, the goods would have been removed elsewhere. The truth is, pre-inspection to prove value *after a fire*, except as to building or machinery, can be of but little use. In connection with the vast bulk of small risks inspection really can only be of value to improve conditions existing before a fire.

Again the signing of applications for insurance is supposed to be a panacea. There would seem to be no reason so far as the companies are concerned why they should object to such a requirement; but in the conditions of trade, manufacture, and general business life in this country there are a score of valid reasons why the requirement is incapable of general application; and if it be not of general application no legislation would stand which is of special application.

Signed
Applications

These remarks are made to illustrate the point but not to suggest for a moment that there are no remedies. They have already been indicated to a certain extent in the scope of this paper and could be enlarged at any time when the authorities are

Real
Remedies

disposed to sit down in quiet concert with the men who have the practical knowledge, prepared to believe that the recommendations which would be advanced are given in all good faith. These recommendations, however, can hardly come within the scope of this paper in detail.

The following suggestions are, however, advanced not as original, some of them having been previously made and even put into effect in part:

Fire Marshal

(a) Each State should support an efficient Fire Marshal Service with police powers.

Licenses

(b) All Agents, Brokers and Public Adjusters should be licensed annually upon proper qualification. This has now been provided for by law in this State.

Record
All Fires

(c) A record of *all* fires should be kept by the Fire Marshal. Property owners as well as the tenants who are directly involved should give a signed statement as to the circumstances of each fire, and this should be placed on file with the Fire Marshal's office. The New York Board of Fire Underwriters is now preparing something of this nature for its own records within the territory covered by it as to losses within the cognizance of the Companies. The origin and circumstances attending every fire should be the subject of investigation, as only in this way can the public mind become thoroughly ingrained with the idea that occurrence of a fire is a very serious matter and one for which those interested must be prepared to give an account.

Other
Insurance
Restricted

(d) In the case of small policies on household furniture, other insurance ought not to be permitted by the company issuing the first policy

thereon. In other words, lines 11, 12 and 13 of the standard policy reading as follows should not be waived:

“This entire policy, unless otherwise provided by agreement endorsed hereon or added thereto shall be void if the insured now has or shall hereafter make or procure any other contract of insurance, whether valid or not, on the property covered in whole or in part by this policy.”

(e) Chapter 340 of the Penal Code should be amended so as to include insurance as well as credit under the penalties for false statement as to the value of property for the purpose of securing insurance. Penalties

(f) The authorities should make it clear that co-operation will be given to the Insurance Companies in their efforts to defeat criminal and fraudulent claims, and in the case of suspicious losses the authorities should have the right to prohibit the payment of any loss to the claimants until they lift the prohibition. Support of Authorities

(g) One highly important remedial measure which can only be brought about, if ever, by a long education of public opinion, would be to put property owners and tenants under penalty for the effect of loss caused by carelessness or criminality which responsibility might preferably take the form of fine and/or imprisonment, as other forms of liability would be assumed by insurance companies for a premium, so that the parties involved could escape the effects. Responsibility with Penalty for Fines

(h) A proper Building Code should be adopted and enforced in every State and municipality. Building Code

(i) Extension of protective devices, emphatically specifying Automatic Sprinklers.

The carrying out of the foregoing recommendations would cure, in large measure, the evils of incendiarism caused by Fire Insurance, but would go far deeper by preventing the much heavier loss which has no relation whatever to insurance.

But when all is said and done we should not be deluded with the idea that we can come to anything approximating the same low rate of premium or low rate of burning enjoyed on the other side of the water. It is an impossibility and may as well be dismissed from our minds so far as this generation is concerned. The mass of timber construction, the severity of climatic conditions, Summer and Winter, and the restless, shifting character of the population are three sufficient reasons why we cannot have the European average rate of burning or premium, altogether apart from incendiarism or care. Nevertheless, the present rate of burning can be greatly reduced.

The sober reflection of you gentlemen is invited to the unjustifiable way in which the public is prepared to saddle all catastrophies connected with fire upon the Insurance Companies. The two outstanding horrors of recent times—the Asch Building fire, in New York City, whereby 147 lives were lost, and the Binghamton Clothing Co. fire at Binghamton, N. Y., whereby 35 lives were lost, are cited. In both of these instances it is clear the fires were not intentionally caused, that there was no object in the procurement of insurance money, as the properties were under-insured, and that the sched-

ules under which the premises were rated indicated the character of defects for which charges were made increasing the rates. These fires are typical cases thoughtlessly charged by the public to Insurance Companies but for which they are in nowise responsible. It certainly does not help the case to divert from true causes to false inferences based upon prejudice.

So far what has been said has largely been on the negative side. We now come to what is positive and revive the question whether the effect of Fire Insurance, broadly speaking, is beneficial or harmful in its influence upon the destruction or conservation of life and property? Considerations will now be advanced tending to prove that as a whole the influence of Fire Insurance has been greatly to better conditions and to safeguard the interests of the community at large against the danger of fire, it being in fact the one great factor which does so work.

Original
Question

Leaving what is purely historical and coming to methods of the present day, it is fair to claim for the business of Fire Insurance that its practice strongly tends to the protection of life and property and that its influence in this respect is overwhelmingly greater than any contrary effect for ill in the stimulus of incendiarism. This claim is susceptible of proof, which proof is briefly attempted herewith.

Fire Insurance
Beneficial

(a) During the past ten years, or to be specific, since the Baltimore conflagration, the Fire Insurance Companies have pursued a systematic campaign for the strengthening and betterment of the

Improvement
of Fire De-
partments

Fire Departments in all the principal cities of the United States. To this end they have organized bodies of experts including Fire Department, Hydraulic and Structural engineers. Painstaking investigations have been made all over the country which have resulted in increases of the uniformed force and the number and power of engines, of hook and ladder trucks and in the quality and quantity of fire hose.

Improvement
of Water
Supplies

(b) Through the influence of the Fire insurance companies, exercised through the National Board of Fire Underwriters, great work has been done in bringing proper pressure to bear in the proper quarters upon the supply of water for fire purposes, the effect of which can be seen all over the country in the higher standards demanded and in the high pressure water systems provided. The motive with the Insurance companies has been to guard against the risk of sweeping conflagration, but the fact remains of the benefit which has been brought to pass for the peace and security of the public in general in a higher scale of safety.

Rating and
Inspection
Bureaus
Beneficial

(c) The companies maintain all over the country Bureaus for the joint rating and inspection of risks affecting practically all of the manufacturing plants, business houses and other important buildings, whereby defects and their remedies are brought out into the clear light, and subjected to the ordeal of the rate which makes charges for defects and gives credits for betterments; the general uplift of the conditions which make for safety through this agency can scarcely be exaggerated,

although the great benefit of this work is to appear even more in the future than in the past.

(d) With the incoming of new industries of a serious nature it has devolved upon the Fire insurance business to become their custodian, to take charge of and to become acquainted with new and obscure hazards and to formulate the conditions for these new features so that they can be tolerated in safety in the community. This is especially illustrated in connection with the petroleum hazard which developed fifty years ago, the electrical hazards which came in forty years ago or less, and automobile hazards which have come amongst us in recent times.

New Hazards
Guarded

(e) The internal protection of properties has become the peculiar study and function of the Fire insurance organizations and as a result the importance of Automatic Sprinklers, Thermostats, Standpipes and Hose and all the infinite detail of internal protection has been dependent upon the Insurance expert for development.

Protective
Devices

(f) The ordinances regulating buildings and fire limits in the principal cities in years past can only be described as chaotic or non-existent. It has devolved upon the Insurance companies, peculiarly through the National Board, to press upon the communities everywhere the adoption of properly drawn Building Codes and the definition of properly laid out fire zones. This has been a work of immense importance, and the Building Code of the National Board is practically standard throughout the land.

Building Codes

Laboratory

(g) The Fire insurance companies have designed and installed a Laboratory which is unique and which is established for the testing of all building materials, of all defensive devices and of all fire fighting paraphernalia. This Institution is of international reputation and is an adjunct to the National Board of Fire Underwriters of the utmost value to the general public.

National Fire
Protection
Association

(h) The National Fire Protection Association, an organization which has in a few years attained a place of international importance, was originated by Insurance interests, and at this present time is largely supported in all its activities by the Insurance interests notwithstanding its membership now embraces allied interests of every kind such as Architects, Engineers and many industrial organizations.

State Fire Prevention and Inspection Associations have been organized in many of the States, the work of which is done entirely by Insurance officials and at the insurance cost.

Millions of
Inspections
Annually

(i) The work of the individual companies cannot be ignored. Each company of any importance maintains a staff of inspectors and Special Agents whose combined work in the course of a year represents literally millions of inspections, through which are pointed out defects and improper conditions liable to produce fires, expert knowledge being brought to this work, which feature alone far outweighs in value any harm from supposed increase of loss from incendiarism. In other words no sane man can question but that the fire loss would have

enormously increased had the work of the Insurance Inspectors maintained by the companies been withdrawn summarily, say ten years ago, and such increase would have come not from dishonesty but from the lack of the technical knowledge which has pointed out to property owners the dangers of these myriad defects.

(j) It has largely devolved upon the Fire insurance interests to impress the need and value of State Fire Marshals, both with reference to the investigation of causes of fire and the work for their prevention. The National Board of Fire Underwriters has prepared a model Fire Marshal law to this effect.

Fire
Marshals

The foregoing sections constitute an impressive exhibit that the whole weight of the Fire Insurance business is organized along the line of protection and not of destruction.

(k) Another line in which the Fire insurance interest has worked steadily for more than one hundred years is in the organization of salvage or protective corps to save property at the time of the occurrence of a fire while the firemen are engaged in the work of extinguishment, and this work is performed irrespective of whether the property so protected is insured or not.

Salvage
Corps

All this is said in no spirit of boasting but to substantiate the contention that the broad effects of the Fire insurance business have been pre-eminently to the conservation of life and property. This is deemed to be proved by the facts summarized above and it should be accepted that the benefits of the

Fire Insurance
Stands for
Conservation

business are overwhelmingly greater than the dangers which accompany it. There has heretofore been withheld from the best elements in the Fire insurance world sympathy on the part of the public to appreciate the underlying purposes of the business which would ensure their support to the proper objects of it.

Sordid Motives
Imputed
would be
Essentially
Unprofitable

Because it has seemed possible for Insurance companies to get a small increase in premium from over-insurance or careless underwriting it has been assumed that the general policy has been shaped by these sordid considerations. It might with more reason be charged against the medical profession that they deliberately cause the spread of disease in order to secure income from its treatment, as doubtless it could be shown that such a motive might produce such an effect, but the medical profession is rightly acquitted of such a charge. As regards Fire Insurance, the *motive* lies wholly to the contrary of what is charged. Any company which would recklessly allow upon its books property over-insured, or would knowingly pass as policy holders men of incendiary tendencies, could not live. It is well known to be the practice of Fire insurance companies to sift the business offered for evidence of Moral Hazard or for previous incendiary record by all the means which exist for these purposes. This is true notwithstanding all the assertions to the contrary made in the public press. Some chances may be taken by them on high Physical Hazard, but no company can play loosely with the Moral Hazard without being bitten. The business is bound to be judged upon the question of

Motive favors
Conservation

motive as well as upon its broad policy of conservation. Furthermore, it is a matter of record that companies thrive best in those States which have the lowest average rate; they make the best profit out of the classes of risk which have the lowest rates. The cumulative weight of all the considerations advanced should be sufficient to establish that the business is one conducted on a high standard of regard for the public weal and to refute charges to the contrary which have been widely disseminated in the public press with but scant justification.

To focus the different points emanating from our problem they are briefly epitomized:

1. Fires numerous and destructive existed prior to the origin of Fire Insurance. Summary
2. The great fire of London originated the modern Fire Insurance business.
3. Fire Departments were an outcome of the Fire Insurance business.
4. The organization of Fire Insurance and Fire Departments produced a body of experts in fire protection.
5. Incendiarism for Insurance as distinct from all other motives is probably responsible for 5.00% of all fires.
6. The amount of incendiary loss, with *insurance as the cause*, was probably about \$11,300,000 in 1912.
7. The crime of arson is epidemic only in certain sections of a few large cities, occasional elsewhere.

8. The great volume of fire loss has no relation whatever to incendiarism.

9. Over-insurance bears but a very small relation to the total volume of insurance.

10. Temperamental Hazard, meaning recklessness and a perverted public sentiment, is the largest individual factor in the fire waste.

11. Inspection prior to fires is not a preventive for incendiarism.

12. The general signing of applications for insurance is not capable of universal application.

13. Remedies can be found for fire waste in Fire Marshal laws, qualification of agents and public adjusters, a record and investigation of all fires, restriction of amount of insurance on small properties, amendment of the Penal Code, co-operation from the authorities, with the Insurance companies in fraudulent cases, fines or imprisonment for carelessness or criminality, the adoption of proper Building Codes.

14. Climatic conditions, cheapness of timber and carelessness of population are causes which prevent European standards of fire waste.

15. The Fire Insurance business encourages the conservation of life and property far more than to the contrary, it has strengthened Fire Departments and Water Supplies, through its rates it penalizes defects and encourages remedies, it studies the hazards of new industries, it encourages all methods of internal protection, it encourages the adoption of Building Codes and of fire zones in

large cities. It maintains a valuable testing laboratory, it effects millions of inspections thus improving conditions of properties, it urges the appointment of State Fire Marshals with police powers, and it maintains salvage and protective corps for the protection of property. Fire insurance thus represents a great preservative force.

The topic of "Fire Insurance in Relation to Incendiarism" being regarded as a challenge, the answer is demonstrated in the foregoing summarized conditions. The issue was raised as to whether Fire Insurance is primarily an element of destruction or of conservation, and it is submitted that the answer is that only to a minor extent does the business prejudicially affect life and property but that in its general influence it is essentially an element of conservation both of life and property, and as such entitled to sympathetic support from all concerned.

Final Claim



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